

Message Text

CONFIDENTIAL

PAGE 01 SANTIA 04718 222003Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 /093 W
-----022605 230439Z /13

R 221927Z JUN 78
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 9617
INFO AMEMBASSY LIMA
AMEMBASSY LA PAZ
AMEMBASSY BUENOS AIRES

C O N F I D E N T I A L SANTIAGO 4718

E. O. 11652: GDS
TAGS: EFIN, PINT, CI
SUBJECT: GOC FINANCIAL MANEUVERS

REF: SANTIAGO 2129

1. THE GOC APPEARS TO BE QUIETLY MOVING TO PROTECT THE ECONOMY IN THE EVENT POLITICAL DEVELOPMENTS SHOULD RESULT IN RESTRICTED ACCESS TO PRIVATE FOREIGN BANK CREDITS. AS OF MAY 31 THE CENTRAL BANK HAD ACCUMULATED \$1.98 BILLION IN GROSS FOREIGN EXCHANGE RESERVES. IT IS PUBLICLY ASSUMED BY SOME SECTORS THAT THIS LEVEL OF RESERVES WILL BE USED TO EASE MONETARY POLICY, THUS LOWERING INTEREST AND UNEMPLOYMENT RATES. SOURCES IN THE CENTRAL BANK HAVE INFORMED US, HOWEVER, THAT THE GOC HAS DECIDED TO CONTINUE ACCUMULATING RESERVES THROUGH THE END OF 1978.

2. ALTHOUGH NO OFFICIAL TARGET HAS BEEN SET, IT APPEARS THE GOC IS AIMING AT A RESERVE LEVEL IN EXCESS OF \$1.5 BILLION. TO ACHIEVE THIS LEVEL THE GOC IS NOW CONSIDERING ACCEPTING SEVERAL ATTRACTIVE SYNDICATED LOAN OFFERS TO THE CENTRAL BANK. FINANCIAL PLANNING FOR 1978 HAD PREVIOUSLY LIMITED CENTRAL BANK BORROWING TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SANTIA 04718 222003Z

A \$125 MILLION LOAN SYNDICATED BY WELLS FARGO AND A \$150 MILLION OFFERING HEADING BY MORGANS. THE LATTER WAS OVERSUBSCRIBED TO \$210 MILLION. IT NOW SEEMS THAT THE CENTRAL BANK MAY GO FOR AN ADDITIONAL \$150 MILLION. CURRENT LOANS ARE BEING OFFERED TO THE CENTRAL BANK AT 1 1/4 TO 1 3/8 OVER LIBOR FOR FIVE TO EIGHT YEARS.

3. IN ADDITION TO THESE CENTRAL BANK LOANS THE GOC HAS APPROVED A ROLLOVER AND INCREASE OF THE 1976 BANKERS TRUST LOAN TO CAP FOR THE HUASCO PELLET PLANT. THIS NEW LOAN WILL BE SYNDICATED IN THE AMOUNT OF \$100 MILLION.

4. AS A RESULT OF MEDIUM AND LONG TERM CAPITAL INFLOWS, THE CENTRAL BANK NOW PROJECTS A BOP SURPLUS OF OVER \$634 MILLION (SEPT-80). THIS AMOUNT COMPARES TO A \$7 MILLION DEFICIT IN 1977 AND A \$455 MILLION SURPLUS IN 1976. THE 1976 BOP SURPLUS WAS A RESULT OF A SELF-INDUCED, DRASTIC CUT IN IMPORTS, RATHER THAN A CAPITAL ACCOUNT INFLOW FROM PRIVATE FOREIGN BORROWING AS IS LIKELY IN 1980.

5. CHILE'S ACCUMULATION OF RESERVES IS NOW BEING USED TO MAKE ADVANCE PAYMENTS ON 1979-80 FOREIGN DEBT OBLIGATIONS. BETWEEN APRIL-JUNE THE CENTRAL BANK MADE \$180 MILLION IN SUCH PAYMENTS PRIMARILY TO PRIVATE CREDITORS. THE OBJECTIVE SEEMS TO BE TO REDUCE CHILE'S HIGH DEBT SERVICE TO EXPORTS RATIO IN 1979-80, THUS MINIMIZING THE NEED FOR AND DEPENDENCE ON LARGE FOREIGN BORROWING IN 1978-79.

6. CENTRAL BANK SOURCES STATE THAT THE STATE OF PRESENT INTERNATIONAL FINANCIAL MARKETS DOES NOT SUGGEST A DECLINE IN INTEREST RATES FOR CHILE. THEY BELIEVE, IN FACT, THAT HIGH LEVELS OF INTERNATIONAL LIQUIDITY MAY ALREADY BE DECLINING. IN SPEAKING WITH VISITING U.S. BANKERS EMBOFFS HAVE ALSO RECEIVED THIS IMPRESSION. AS THE DEMAND FOR CREDIT PICKS UP IN THE DEVELOPED COUNTRIES, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SANTIA 04718 222003Z

PARTICULARLY THE U.S., FEWER LOANABLE FUNDS WILL BE AVAILABLE TO THE INTERNATIONAL MARKET. THEREFORE, ON A BASIS OF SOUND DEBT MANAGEMENT ALONE THE CENTRAL BANK BELIEVES AN INCREASE IN CHILE'S LEVEL OF INDEBTEDNESS IS ADVISABLE AT THIS TIME.

7. THE CENTRAL BANK CLEARLY HAS SOME TREPIDATION ABOUT THE LETELIER/MOFFITT CASE (REFTEL). ONE CENTRAL BANK SOURCE STATES OPENLY THAT THE CURRENT ACCUMULATION OF RESERVES BY CURRENT BORROWING IS IN PART A HEDGE AGAINST THE POSSIBILITY THAT POLITICAL EVENTS IN THE IMMEDIATE FUTURE WILL RESULT IN A CURTAILMENT OF CURRENT GOC ACCESS TO INTERNATIONAL FINANCIAL MARKETS. BORROWING NOW, WHILE THERE IS STILL A LONG LINE OF WILLING LENDERS, WILL PROVIDE A CUSHION FROM THE ECONOMIC IMPACT SHOULD INTERNATIONAL MONEY WINDOWS BE ABRUPTLY CLOSED TO CHILE IN THE PRIVATE AMERICAN, EUROPEAN AND JAPANESE MARKETS. LANDAU

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANTIA04718
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780261-0783
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780630/aaaaazvp.tel
Line Count: 110
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6b8abf83-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 SANTIAGO 2129
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2246105
Secure: OPEN
Status: NATIVE
Subject: GOC FINANCIAL MANEUVERS
TAGS: EFIN, PINT, CI
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/6b8abf83-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014